AR 2004

It's like walking into a new store every day You never know what you'll find I am always surprised to find something in store I'd never find anywhere else Always shop here first - you'll find lots of what your family needs and save money as well It's a shopping experience like no other It's a treasure hunt Furniture, food, paint, housewares, hardware, clothing, sporting goods, toys, health and beauty…Liquidation World sells it all 1000's of everyday items Brand new, brand names The fun is contagious & the savings are too!

LIQUIDATION WORLD®

BRAND NEW • BRAND NAMES

our corporate profile

Brand new, brand name merchandise. Much of what you need for daily living – food, furniture, clothing, house wares, hardware, paint, and more – Liquidation World sells it all at prices that are often 50 percent or less of what you will find at traditional retail stores.

How do we do it? And, how have we done it for 18 profitable years running?

Liquidation World works closely with manufacturers, retailers, banks and insurance companies to help them deal with merchandise of almost every description that won't, or can't be sold through typical retail channels.

That may include merchandise from inventory overruns or packaging changes. Sometimes it means goods from bankruptcies, receiverships and insurance claims. But most of our goods are sourced from healthy, ongoing businesses – manufacturers who view Liquidation World as an indispensable part of their sales channel, and retailers who occasionally need help clearing excess stock.

We buy these goods with cash and at deep discounts, and pass the savings on to our retail customers through 105 fun, friendly and no frill Liquidation World outlets in Canada and the US. And that's where we have the most fun. Sharing our great bargains with value and quality conscious consumers.

We'll go half way around the world to buy a multi-million dollar deal. And, we'll go around the block to buy from a local business in need.

We never stop looking for a deal and neither should you.
Shop Liquidation World.
Brand new.
Brand names.

The **ANNUAL MEETING** of the Shareholders of Liquidation World Inc. will be held **Thursday, February 3rd, 2005, at 2:45 pm in the CP Room at the Fairmont Palliser Hotel - 133 - 9th Avenue SW, Calgary, AB.** Those shareholders who are unable to attend are encouraged to complete and return the form of proxy mailed with this annual report.

summary of selected financial data

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Revenues ($,000) (1)	**184,418**	170,535	174,342	183,400	160,639	148,958	134,691	96,574	71,705	56,268
Cost of sales ($,000) (1)	**112,841**	102,337	106,592	112,670	95,063	89,919	81,229	57,877	43,627	35,708
Gross margin ($,000)	**71,577**	68,198	67,750	70,730	65,576	59,039	53,462	38,697	28,078	20,560
Expenses ($,000)	**64,828**	63,965	60,715	57,176	52,818	48,007	42,090	30,880	21,446	15,815
EBITDA ($,000) (2)	**6,749**	4,233	7,035	13,554	12,758	11,032	11,372	7,817	6,632	4,745
Depreciation & amortization ($000)	**1,283**	1,442	1,460	1,427	1,322	1,088	891	613	359	227
Interest ($,000)	**–**	–	7	125	384	522	213	53	169	280
Income taxes ($,000)	**2,523**	1,304	2,397	5,021	4,754	4,362	4,474	3,067	2,584	1,867
Loss from discontinued operations	**650**	718	966	–	–	–	–	–	–	–
Net earnings ($,000)	**2,293**	769	2,205	6,981	6,298	5,060	5,794	4,084	3,520	2,371
Earnings per share ($)										
Basic	**0.27**	0.09	0.26	0.83	0.76	0.62	0.73	0.53	0.51	0.39
Fully diluted	**0.27**	0.09	0.25	0.81	0.75	0.59	0.69	0.49	0.46	0.36
% Increase (decrease) in revenue	**8%**	2%	(5%)	14%	8%	11%	39%	35%	27%	57%
Number of outlets at year end	**102**	98	97	87	87	74	67	58	39	29
Inventory at year end ($,000)	**55,705**	48,831	44,677	49,778	49,858	44,090	41,031	27,734	18,427	15,527

NOTE: The above information has been retroactively re-stated to reflect the Company's current accounting policies and share structure.
(1) Revenues prior to fiscal 2000 include gross consignment revenue and cost of sales include payments to consignors. Revenues in fiscal 2000 and thereafter include only commissions earned on consignment sales.
(2) EBITDA is calculated before discontinued operations. The company recognizes that EBITDA is not a standard measure under Generally Accepted Accounting Principles, and therefore may not be comparable to similar measures presented by other Canadian public companies.

our vision

To be the number one choice of consumers for extreme value, variety and quality merchandise.

our mission

To provide our customers with exceptional value and an ever changing variety of goods in which they can be confident of the quality, in an environment that is fun, friendly, clean and inviting to all.

To be the preferred choice of the world's best manufacturers, importers, wholesalers and the like as a unique, honest and professional solution for the disposition of close-out, end-of-season and other surplus merchandise. Equally, to be a purchaser of opportunistic inventories from the smallest localized situations to large-scale business closures.

To provide our associates with an environment that encourages our common values and provides opportunities based on performance, in an exciting organization with a clear purpose.

And to create consistent, sustainable, and improving value for our shareholders.

our values

We recognize the equal importance of our customers and our suppliers in a business that must earn the respect of each with every new transaction.

We will treat both with fairness, integrity and always with the long term, and our reputation in mind.

Our business needs decision makers, deal makers, negotiators, marketers, promoters, analysts, counselors, controllers, merchandisers, and many other varied skills. We accomplish the most when we put our unique skills to work as a team and make decisions for the benefit of the business.

We are honest, enthusiastic, and respectful, and encourage compliments, criticisms and suggestions equally from everyone, everywhere.

December 13, 2004

Last year, we made it clear we were going to focus on the business activities that have served the company well since its inception in 1986. We also said we would do so within a framework of operational excellence, revenue growth, and improved profitability.

We have succeeded on these fronts, and we continue to work on others. We would like to share with you our perspective on what has been, as well as our view of the many exciting things to come as we implement plans for the future.

Fiscal 2004 saw revenues grow 8.1% to $184.4M from $170.5M in 2003. Earnings from continuing operations increased 98.0% to $2,943,000 ($0.35 per share) from $1,487,000 ($0.17 per share) the previous year.

The majority of our outlets reported year over year sales growth and seven new stores were opened in fiscal 2004. As a result, the Company booked record retail sales. While four outlets were closed in the same period, we continue to find attractive sites for new locations. Three additional Liquidation World outlets have already opened in fiscal 2005 for a current total of 105.

WE WILL CONTINUE TO EXPAND IN KEY GEOGRAPHIC MARKETS TO REALIZE FULL VALUE FROM OUR EXISTING INFRASTRUCTURE.

Such internal growth is indicative, not only of our belief in the central retail premise of the business and in the talent of its people, but that there remains much potential in this regard, and that its promise demands our full attention.

As a result, we have divested the Company of its interests in the Clear Thinking Group, Inc. (a retail consulting business) and in Product Management Corporation (a reverse logistics firm), having concluded that neither were instrumental to the success of our core business and ongoing strategic plans.


SECTION C

Oilfield sabotage in Iraq ends crude's slide

BUSINESS & CLASSIFIED

PICKING UP THE PIECES

RBC profits tumble

Problems in bank's U.S. division cited

When disaster strikes, opportunity knocks

Liquidation World profits from calamity

CPR seeks exclusive rail rights guarantee

Firms find gold in sponsorships

Our first full on sale, your big opportunity.

ACURA

WHEN HURRICANES BLEW THROUGH FLORIDA EARLIER THIS YEAR, WE WERE THERE TO HELP CLEAN UP. THESE LARGE DEALS GARNER LOTS OF MEDIA ATTENTION BUT THE FACT IS, MOST OF OUR GOODS ARE SOURCED FROM HEALTHY ONGOING COMPANIES.

Over the course of the past year, Key Performance Indicators were established and clearly defined across all functional areas of the Company, and all department heads have been evaluated based on their ability to achieve these measurable standards. We are pleased with the results and are keen to use these new benchmarks on an ongoing basis.

We stated in last year's report that we would be looking to round out our product offering and hire category specific buyers in an effort to exploit under-utilized product categories. We have done that by augmenting our buying team with new expertise in the fields of sporting goods and paint, and continue to look in other areas as we strive to offer a broader and better selection of inventory in all our outlets.

It was also our intention to increase inventory to prior historic levels to better service demand within a unique retail model that is not dependent upon programmed or replenishment buys. Year-end numbers reflect this commitment.

As opportunistic buyers, we realize we will stock more inventory than typical retailers, and that the timing of many buys can not be planned. Goods sourced in the aftermath of a number of storms in the southern US fit this description. Such buys generate a fair bit of media attention, create a swell of consumer interest, and have always been instrumental to our success.

However, the success of a retail company our size depends on more than just volume and selection of inventory. Equally important is having the right inventory, in the right place, in the right quantity, at the right time.

To that end, we have recently completed a full-scale review of the Company's information and technological requirements, with the goal of implementing a new merchandise management and accounting system clearly in view. A new, scan-based inventory module is a key component of the project, and will allow for better inventory and price management, decreased costs, and increased efficiencies.

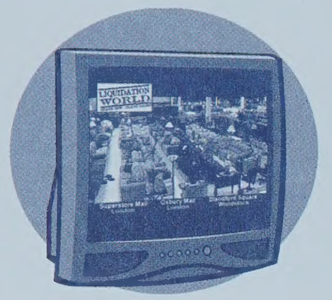
We have also centralized our eastern operations in a combined regional office and distribution facility in the historic and former Massey-Ferguson plant in Brantford, Ontario. At 125,000 square-feet in size, and with an additional 75,000 square-foot mezzanine, we fully expect this new complex will allow the Company to service a greater number of stores in Canada's most densely populated region.

Now, the foundation is set and the building can commence.

With the help of many within the organization, from the Board of Directors to those working the store floor, we have laid out a five-year plan that will govern our efforts as we move boldly ahead. We believe we have a clear purpose and a well drafted strategy that we are currently sharing with all staff as we visit our outlets and offices across Canada and in the US.

Here is what we are saying, and what you can expect in the months and years ahead.

our brand



Our brand is our most valuable asset. With 18 years of history and profit, we feel we have established ourselves as a unique business model that no longer serves a small niche. Consumers have become more sophisticated, and discount and closeout shopping have become mainstream. We feel there is a larger market than ever for both quality and a variety of merchandise at extreme value prices.

NEWSPAPERS, FLYERS, RADIO AND TELEVISION PROVIDE CHANNELS THROUGH WHICH WE ARE REACHING OUT TO A BROADER RANGE OF CONSUMERS.

To capitalize, we will invest in broader and more consistent marketing campaigns that tell our story effectively to as many potential customers as possible. To that end, we have launched a flyer campaign that augments our newspaper advertising, and we are actively supporting both through radio and direct mail.

our outlets

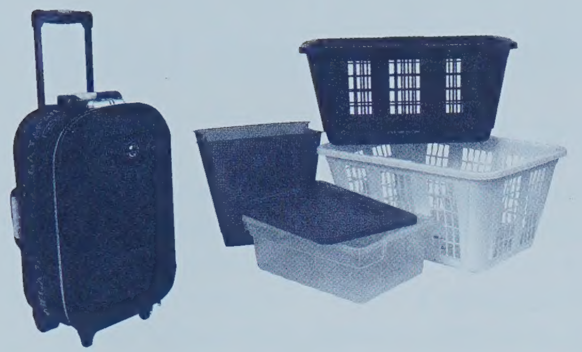
BRIGHT LIGHTS, ORDERLY, WELL STOCKED SHELVES, AND A CLEAN OUTLET WITH FRIENDLY STAFF LEAD TO A GREAT SHOPPING EXPERIENCE.

As mandated by our "Brilliance in the Basics" philosophy, our outlets should be clean, fun, friendly places to shop, and meet the expectations of a broad and growing range of consumers.

Our newer outlets reflect this belief, and work has commenced on some established locations to set a model of consistency that can roll out across all Liquidation World outlets. You can see preliminary results by visiting our two London, Ontario locations, as well as our new stores in Brantford and Wallaceburg, Ontario.

OUR WALLACEBURG, ONTARIO OUTLET OPENED EARLY IN FISCAL 2005. ADDITIONAL OUTLETS HAVE SINCE OPENED IN RENTON, WASHINGTON AND PRESCOTT, ONTARIO.

the buy



WE SEARCH THE WORLD OVER FOR THE BEST CLOSEOUT AND EXCESS MERCHANDISE – EVERYTHING YOU'D FIND AT MAINLINE RETAILERS...PLUS A LOT MORE.

Much of our success begins with the "buy." It is the source of our largest asset – our inventory – and all we do will be mindful of this fact. After all, there is nothing like sourcing great merchandise that we can sell at unbelievable prices while maintaining strong margins.

However, there is an increasing sophistication that is required to gain and maintain access to goods with attractive margins and consumer appeal. To successfully preserve our competitive buying position, we will continue the reorganization of our buying team so buyers can better focus on specific categories, and thereby enhance the variety of merchandise we offer for sale.

Such a strategy implies more expertise, not a rigid structure. We will remain adaptable and will always be opportunity buyers at heart.

the infrastructure

Fully intending to grow, we recognize our potential is dependent upon the people and systems in place to support it. That means building an infrastructure that supports our initiatives, while eliminating work not associated with customer service and merchandising at the store level.

In addition to the merchandise management and accounting system already noted, we will be installing new point of sale terminals that allow for better inventory and price management, a warehouse management system that supports greater efficiencies throughout the supply chain, and a human resource strategy whose purpose is to improve staffing through better recruiting, training and compensation. The staff we do have is committed and talented. For those who perform well, there is room to grow and take on new challenges. Where there remains a need, it will be filled.

Having completed our first full year in office, we are encouraged by the Company's progress thus far, but have much higher expectations for the future.

The Office of the CEO is committed to making Liquidation World grow to its full potential, and be a company that all shareholders and stakeholders are pleased, and rewarded to be associated with.

On behalf of our Board and 1700 colleagues, we thank you for your interest and continued support.

WAYNE MANTIKA
President and Co-CEO

Wayne has been a driving force in the development of Liquidation World since 1987, and he lends a diverse range of expertise to the Company. As a professional auctioneer, he also has a great eye for value. Wayne is responsible for the development and growth of the purchasing arm of the Company, as well as Liquidation World's day-to-day operations.

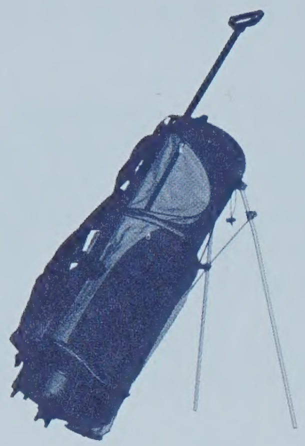
DARREN GILLESPIE
Senior Executive VP and Co-CEO

Darren joined Liquidation World in 1993 after 10 years with a national consumer electronics chain where he played an instrumental role in growing the business across Canada. Darren is responsible for marketing, communications, and investor relations.

JONATHAN HILL
Senior Executive VP and Co-CEO

Jonathan joined Liquidation World in 1991 and oversaw the expansion of the business in Ontario, developing a strong local management team and a group of buyers to support the Company's growth. Jonathan is responsible for the development of real estate opportunities, and is actively involved in the Company's ongoing business development.

A unique retail model



Why shop at Liquidation World?

For brand name, brand new merchandise, of course!

Many of the items we carry are the same as those you'll find in other stores around town. Some you won't find anywhere else. The fun is in discovering something new, unexpected, and at an unbelievably great price.

Consumers
Shop us first and shop us weekly. You'll be amazed at how many of your regular shopping needs we can meet, and at great savings to boot.

Manufacturers
We have a proven channel of distribution for goods not destined for regular retail outlets. We offer brand protection through managed distribution, and tightly controlled advertising in accordance with your instructions.

Retailers
Convert inventory into cash. We offer inventory "lifts" with optimum recovery. We provide complete management services for on-site store closures, and we can often mitigate lease and staff expenses.

Banks
When you have a troubled portfolio, you have to act ... and you have to act fast. Our experience provides you with a quick and accurate read on the value of your portfolio. You can then determine the best course of action, both for your client and for yourself.

Insurance Companies
Claims are inevitable. Maximize your recovery by calling us first. We have the financial and logistical ability to help you settle quickly, and in everyone's best interest.

How do we keep our prices so low?

Liquidation World buys much of what it sells from manufacturers who have to deal with cancelled orders, packaging changes, inventory overruns, or discontinued products. We also buy from retailers who have too much stock or who are closing stores.

Some of these goods have to sell quickly. Other goods, like those produced just prior to a packaging change, can't be sold along with those produced later.

We buy all this great stuff and we buy it with cash. That means we get extraordinary discounts, and we pass the savings on to our customers.

Liquidation World has become a destination store for millions of value and quality conscious consumers.

So, who shops at Liquidation World?

High-income treasure hunters searching for unbelievable deals on goods and merchandise unavailable anywhere else.

Those who insist on paying the absolutely lowest price for everything they buy, regardless of their social class or walk of life.

And those on a budget who have to make the most of every dollar they earn.

where everyone wins

What makes us different?

We knew you'd ask that question.

Traditional retailers, department stores, wholesale and warehouse clubs are "program buyers". They know exactly what merchandise they'll carry months in advance.

For program buyers, efficiencies come with size. But with size comes an inability to adapt quickly, and a tendency to rely on thin margins and high volume.

Liquidation World is OPPORTUNISTIC. We may plan to buy in certain categories but it is always the attraction of the deal and the price that drives our buying process.

As a result, Liquidation World can operate with gross margins close to 40%. Other mass merchants typically operate with margins that are much less attractive.

the proof is always in the pudding

When one of America's most respected retail chains had to restructure, they called us to close unprofitable stores, deal with excess inventory, and help mitigate their lease obligations. As one of the nation's largest retailers, this retail chain now profitably operates more than 3000 stores.

Good stuff cheap

We're always being recognized as one of the best discount retailers in town.

Drop by any one of our more than 100 locations to find out why.

Do we sell goods from bankruptcies and insurance claims?

Yes we do, and it's a valuable service. When a warehouse or store is damaged by a storm, owners want to rebuild as fast as they can. To make the job easier, it's often best to sell everything that's inside. That's where we like to help.

And, when companies face financial troubles, we help the owners, and sometimes their banks, make the best of a difficult situation.

HOW MANY OUTLETS DO WE HAVE?

A lot of them. We now have 105 OUTLETS across Canada and in the US with more than 2 million square feet of retail space.

The Company's fiscal year ends the first Sunday in October. Accordingly, fiscal 2004 ended October 3, 2004, fiscal 2003 ended October 5, 2003, and each comprised 52 weeks of operations.

OVERVIEW

Liquidation World Inc. ("Liquidation World" or the "Company") is the largest liquidator of opportunity inventory in Canada, with additional liquidation outlets in the US and supporting ancillary services in Canada and the US. Opportunity inventory results from a myriad of situations including insolvencies, insurance claims, overruns, cancelled orders and close-outs. Liquidation World distributes such acquired inventory to value-oriented consumers through its 102 corporately operated outlets (89 in Canada and 13 in the US) as at October 3, 2004.

Liquidation World is pursuing a strategy to increase profitability by increasing sales in existing outlets and in the longer term by expanding the number of outlets. In order to increase sales in outlets, the Company is increasing its buyer network, seeking new sources of desirable inventory and implementing a Merchandise Management System to provide greater insight into inventory and its performance. Management believes that sales can be increased with modest increases in costs, resulting in improved overall performance.

To increase profitability, the Company also initiated the "Brilliance in the Basics" plan whereby it seeks to achieve operational excellence through focusing on basic principles of the business and improving infrastructure, including distribution and technology systems.

During the year, management determined the Company should focus on its strength in acquiring opportunity merchandise and selling it through its network of outlets. Accordingly, management entered discussions to divest Clear Thinking Group, Inc. ("CTG"), a consulting firm that management felt was not instrumental to the success of its ongoing strategic plans. The consulting industry has been a difficult one over the past several years, experiencing declining work loads and excess capacity. Further, anticipated synergies have been limited. On August 27, 2004, an agreement was reached whereby the former principals of CTG acquired certain of its assets and liabilities for $461,000. The Company recorded a loss of $466,000 on the disposal. The accounts of CTG have been moved to discontinued operations for all periods presented.

During the year, management also concluded that its interest in Product Management Corporation (PMC), a reverse logistics enterprise, was not instrumental to the success of its ongoing plans. Accordingly, the Company finalized a deal on October 1, 2004, whereby PMC would reacquire its shares owned by the Company for $725,000 at a modest loss to the Company.

Operating Strategy

Over the next several years, Liquidation World's operating strategy will focus on the following:

- strengthening the Liquidation World brand by emphasizing the quality, value and unique sources of merchandise;
- improving the shopping experience, ensuring outlets are clean, well-illuminated and laid out to facilitate shopping;
- increasing the number of outlets;
- improving efficiency and thereby decreasing expenses as a percentage of sales; and
- implementing a Merchandise Management System to assist in improving inventory performance.

Selected Annual Information

	Years ended October 3 2004	October 5 2003	October 6 2002
Sales ($000's)	$ 184,418	$ 170,535	$ 174,342
Net earnings from continuing operations ($ 000's)	$ 2,943	$ 1,487	$ 3,171
Net earnings per common share before discontinued operations			
Basic	$ 0.35	$ 0.17	$ 0.37
Fully diluted	$ 0.34	$ 0.17	$ 0.37
Net earnings ($ 000's)	$ 2,293	$ 769	$ 2,205
Net earnings per common share			
Basic	$ 0.27	$ 0.09	$ 0.26
Fully diluted	$ 0.27	$ 0.09	$ 0.25
Total assets, end of period ($ 000's)	$ 65,849	$ 65,075	$ 62,717

Revenue

Revenue, which includes sales of merchandise and fee revenue, totaled $184,418,000 for the year ended October 3, 2004, an increase of 8.1% from $170,535,000 in fiscal 2003. The Company operated, on average, two (2.1%) more outlets in fiscal 2004 and therefore experienced increases in average sales per outlet. Early in the year, the Company intentionally increased inventory levels at outlets to increase average sales per outlet. Revenue also benefited from two significant inventory additions consisting of bedding and linens from a bankrupt mill and cookware from a weather damaged warehouse.

Revenue in Q4 2004 increased 7.6% to $45,199,000 from $41,999,000 in Q4 2003. During the quarter, the Company operated an average of two (2.0%) more outlets and, accordingly, experienced increases in average sales per outlet.

The Company expects to open 10 outlets in 2005. However, this will depend on opportunities available in real estate. The Company has implemented several initiatives, described elsewhere herein, designed to increase revenues in existing outlets.

Gross Margin

Gross margin as a percentage of sales decreased in 2004 (38.8%) compared to 2003 (40.0%), primarily as a result of freight costs, which increased 36% year over year. Higher freight costs are a result of increased freight rates charged by carriers to compensate for higher fuel costs and increased volumes shipped consistent with increased revenue. Liquidation World's pricing policy obliges the Company to use selling prices that are lower than any other in the market, including discount stores, warehouse-type outlets and special promotions. Small fluctuations in gross margin occur from year to year as a result of changes in the product mix throughout the stores.

Gross margin in Q4 2004 declined significantly as a percentage of sales to 37.5% from 46.9% in Q4 2003. During Q4 2003, gross margin was increased by $3,500,000 (8.3% of the quarterly sales) to adjust inventory to its actual value as determined by the physical count. This adjustment was required because gross margin as indicated by the physical inventory count had been estimated too conservatively through the 2003 year. During 2004, the Company conducted an additional semi-annual inventory count and was able to more accurately estimate margins and accordingly required a smaller adjustment of $350,000 (0.8% of quarterly sales) to reduce gross margin. The Company expects gross margin in 2005 will improve to between 39% and 40%.

Selling and Store Operations

Selling and store operations, which include all costs of occupying and operating the outlets and opening new outlets, decreased as a percentage of sales in fiscal 2004 to 31.5% ($58,142,000) from 31.8% ($54,291,000) in fiscal 2003. During the year, the Company opened seven outlets, closed three outlets and relocated two. It also relocated its Ontario distribution facility. These costs, as well as increased costs associated with handling planned higher levels of inventory, were more than offset by increased revenue, thus leading to a decrease in selling and store operations as a percentage of revenue.

During Q4 2004, selling and store operations increased as a percentage of sales to 33.2% ($15,024,000) from 30.2% ($12,687,000) in Q4 2003. Increased selling and store operations were a result of opening two new outlets, relocating another and relocating the Ontario distribution facility, (only one outlet was opened in Q4 2003) as well as inefficiencies in outlet and distribution operations. A new time management system has been implemented in order to more efficiently manage labour costs.

The Company anticipates 2005 expenditures to increase at a lower rate than revenue increases, which will cause selling and store operations expenses to decline as a percentage of revenue.

General and Administrative Expenses

General and administrative expenses decreased as a percentage of sales in fiscal 2004 to 3.6% ($6,666,000) compared to 5.5% ($9,335,000) in fiscal 2003. This decrease was primarily due to a 2003 charge of $2,326,000 for a retirement allowance for a senior executive in recognition of 17 years of service. Excluding the retirement allowance, general and administrative expenses totaled $7,010,000 or 4.1% of revenue in fiscal 2003.

During Q4 2004, general and administrative expenses decreased as a percentage of sales to 3.6% ($1,644,000) compared to 4.8% ($2,031,000) in Q4 2003.

In fiscal 2005, the Company expects general and administrative expenses to increase as a percentage of revenue as increased costs associated with the implementation of a Merchandise Management System are absorbed.

Depreciation and Amortization

Depreciation and amortization decreased 11.0% to $1,283,000 in 2004 compared to $1,442,000 in 2003. In Q4 2004, depreciation and amortization of $343,000 remained consistent with the prior Q4, again reflecting the balances of the underlying capital assets. The corollary increases are not perfect due to the timing of store openings and asset acquisitions in each year.

Income Taxes

The effective tax rate of 46.2% in fiscal 2004 and 46.7% in fiscal 2003 are greater than the statutory tax rate in effect during those years (36.1%, and 37.5%) due primarily to losses in subsidiaries where potential tax recovery is uncertain. The Company provided for current income taxes in Q4 2004 of $211,000 against Canadian income. Although losses in US operations exceeded Canadian income in the quarter, the Company did not recognize a reduction of tax expense to offset the losses as there is no certainty that US tax losses will be utilized in the future. In Q4 2004, the Company recorded a future tax liability of $258,000 arising from the difference between the book value of its capital assets and the tax value of the assets.

Earnings from Continuing Operations

As a result of increased revenues, expenses increasing at a lower rate than revenue and the non-recurrence of the retiring allowance in 2003 as discussed above, earnings from continuing operations increased 97.9% to $2,943,000 ($0.35 per share) in 2004 from $1,487,000 ($0.17 per share) in 2003. During Q4 2004, net earnings from continuing operations decreased 120.6% for a loss of $533,000 ($0.06 per share) from earnings of $2,590,000 ($0.30 per share) in Q4 2003, primarily as a result of the difference in the adjustment to gross margin for the valuation of inventory and increased selling and store operations.

Discontinued Operations

During the year, the Company sold the business operations of Clear Thinking Group, Inc. ("CTG") to a company controlled by CTG's former principals. Accordingly, its operating results have been removed from the consolidated results of the Company and presented as discontinued operations. Net results indicate a loss of $650,000 and include a charge for the loss on disposal of CTG assets, the write-off of goodwill and a charge for the costs of disposal. The loss from discontinued operations totaled $718,000 in 2003.

Net Earnings

Net earnings increased 198.2% in fiscal 2004 to $2,293,000 ($0.27 per share) compared to $769,000 ($0.09 per share) in 2003, primarily as a result of increased revenues, expenses increasing at a lower rate than revenues and the non-recurrence of the retiring allowance in 2003. Net earnings in Q4 2004 decreased 121.3% to a loss of $476,000 ($0.05 per share) from net earnings of $2,237,000 ($0.26 per share) in Q4 2003. The decrease is the result of the difference in the inventory adjustment and increased selling and store operations in the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Liquidation World is continuing to carry out its plan for growth through opening new outlets when opportunities for economical leases become available. Seven outlets were opened in fiscal 2004, three outlets were closed and two were relocated. The Company also relocated its distribution facilities in Ontario during the year. Seven outlets were opened and six were closed in fiscal 2003.

Cash flow from operations has been the primary funding source for working capital requirements and capital expenditures over the past several years. Cash flows from operations before working capital requirements increased by $1,525,000 to $4,451,000 in 2004 compared with $2,926,000 in 2003. The increase in cash flow from operating activities was mostly due to stronger sales in the past year.

Working capital requirements totaled $5,958,000 in fiscal 2004 and $1,134,000 in fiscal 2003. The additional working capital was used to increase inventory levels in all stores, as well as to provide inventory to the new outlets, which ranged between $250,000 and $600,000 depending on the size of the outlet. Working capital improved to $51,469,000 at the end of fiscal 2004 compared to $49,504,000 at the end of fiscal 2003. The improvement is mainly due to a $6,874,000 increase in overall inventory and reduction in accounts payable of $1,591,000. The Company currently has short-term borrowing facilities totaling $15,000,000, which is sufficient for planned expansion in 2005, including a reserve for potential inventory acquisitions.

On April 27, 2004, the Company received approval from the Toronto Stock Exchange to renew its normal course issuer bid. The bid permits the Company to acquire up to 427,000 common shares, representing approximately 5% of the issued and outstanding common shares. The Company repurchased and cancelled 142,500 common shares for total consideration of $988,000.

The Company incurred capital expenditures net of disposals of $1,917,000 during fiscal 2004 ($979,000 during fiscal 2003) to provide fixtures and equipment and make necessary leasehold improvements to new outlets and upgrade or provide equipment to existing locations. During 2005, the Company expects to invest approximately $10,000,000 in infrastructure upgrades. Management is assessing its technology financing options for this program to determine the most beneficial financing structure.

Payments Due by Period

(Amounts in $000's)

Contractual Obligations	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating Leases	42,599	9,308	14,507	8,875	9,909
Purchase Obligations	Nil	Nil	Nil	Nil	Nil
Other Long Term Obligations	Nil	Nil	Nil	Nil	Nil
Total Contractual Obligations	42,599	9,308	14,507	8,875	9,909

RISKS AND UNCERTAINTIES

Source of Supply of Inventory

All inventory is acquired from opportunistic situations, so those conditions must exist to provide an occasion to acquire inventory. While surpluses of inventory usually exist, the Company's success is predicated on identifying the opportunities and successfully negotiating a price for inventory that may ultimately be sold for a profit. Certain categories and sources of inventory are more desirable and create more traffic in the outlets.

Competition

As a retailer, Liquidation World competes with other retailers in offering the best value for products it has on hand. Accordingly, when retailers offer significant savings through price reductions, the Company's competitive advantage is diminished and may need to be addressed by reducing prices, which reduces margins and profitability. However, Liquidation World acquires its products for less than other retailers as all inventory is acquired from opportunistic situations at opportunistic prices, allowing the Company to further discount its prices and remain profitable.

Leases

The Company is opportunistic as it leases outlets and pays less than market rates in most cases. If the Company is unable to extend or replace existing leases, it may face increasing costs or a reduction in its number of outlets.

Seasonality

As a retailer, the Company experiences stronger sales in its first quarter (particularly in December) and lower sales in its second quarter (particularly January). Historically, sales have averaged 28%, 23%, 24% and 25% of total annual sales for each quarter respectively. Large inventory deals may skew the results in any given quarter.

Foreign Currency Risk

The Company acquires more inventory denominated in US dollars than it sells in US dollars, so it is exposed to fluctuations in the value of the US dollar relative to the Canadian dollar. Since inventory is acquired and sold in a relatively short period of time, such fluctuations have limited impact. The Company has assets in its US subsidiaries that, when converted to Canadian dollars on consolidation, are impacted by changes in the exchange rate, creating gains or losses. The Company has determined that such fluctuations are not material to its overall operations and, accordingly, has not adopted a hedging strategy to mitigate those risks.

QUARTERLY INFORMATION

The following selected financial information is derived from the consolidated financial statements of the Company and should be read in conjunction with such financial statements and related notes.

(Amounts in $000's except per share amounts)

Quarter ended	October 3 2004	July 4 2004	April 4 2004	January 4 2004
Total revenue	45,199	44,989	43,668	50,562
Net earnings from continuing operations	(533)	823	615	2,038
Earnings per share from continuing operations				
Basic	(0.05)	0.10	0.07	0.24
Fully diluted	(0.05)	0.10	0.07	0.24
Net income/(loss)	(476)	221	660	1,888
Earnings per share				
Basic	(0.05)	0.03	0.08	0.22
Fully diluted	(0.05)	0.03	0.07	0.22

Quarter ended	October 5 2003	July 6 2003	April 6 2003	January 5 2003
Total revenue	41,999	41,856	38,084	48,596
Net earnings from continuing operations	2,590	(1,584)	(649)	1,130
Earnings per share from continuing operations				
Basic	0.30	(0.19)	(0.08)	0.13
Fully diluted	0.30	(0.19)	(0.08)	0.13
Net income/(loss)	2,237	(1,505)	(848)	885
Earnings per share				
Basic	0.26	(0.17)	(0.10)	0.10
Fully diluted	0.26	(0.17)	(0.10)	0.10

Transactions with Related Parties

The Corporation leases three buildings (22,000 square feet, 34,000 square feet and 20,000 square feet) for three of its retail locations from a company owned by Dale Gillespie, Founder and Chairman of the Corporation, and from a partnership where the same company, owned by Dale Gillespie, is a partner. Liquidation World was offered the opportunity to purchase the properties but decided not to own real estate at that time. Base rents for these three buildings approximate $61,000 per year to 2005, $111,000 per year to 2008 and $73,000 per year to 2013, respectively, which are considered to be equal to or less than market rates.

During 2004, the board of directors authorized an independent director to negotiate the divestiture of the consulting and reverse logistics business units. This director was paid fees of $32,000 for his services.

In 2003, assets with a carrying value of $442,000 were sold to Mr. Dale Gillespie, Founder and Chairman, for $340,000, resulting in a loss on disposal of $102,000.

Purchases from and fees paid to Product Management Corporation, an affiliated company were $2,030,000 for the year ended October 3, 2004 (2003 - $1,773,000). These transactions are considered to be in the normal course of operations and have been measured at the exchange amount of consideration established and agreed to by the related parties.

Critical Accounting Estimates
The Company uses the retail method to estimate the value of its inventory. Under the retail method, inventory on hand is counted and totaled at its retail value net of adjustments for markdowns and obsolescence. The ratio of inventory on hand at its retail value to total inventory available for sale at retail is used to determine the portion of inventory remaining at cost as a portion of total inventory available for sale at cost. Accordingly, the costs attributed to inventory are apportioned between inventory remaining and cost of sales.

Changes in Accounting Policies
The Company did not adopt any new accounting policies in fiscal 2004. Beginning in fiscal 2005, the Company retroactively adopted the new Canadian accounting standards that apply the fair value method to total stock-based compensation. Under the fair value method, the Company calculates the fair value of stock option grants and records that fair value as compensation expense over the vesting period of those grants. As a result of the adoption of this policy, opening retained earnings will be reduced by $334,000 and compensation expense in 2005 will be increased by $278,000 in addition to a charge for any stock options granted in 2005.

Other Items
Additional information relating to Liquidation World including the Annual Information Form is available on the SEDAR website at www.sedar.com

Outstanding Share Data
As of December 16, 2004, the Company has authorized for issuance unlimited common shares of which 8,399,142 are issued and outstanding. Further, the Company has reserved 766,644 options to acquire common shares of which 545,700 are outstanding.

OUTLOOK
The Company intends to build on its dominance as Canada's largest liquidator. The focus for the current year is to increase sales in existing outlets, ensure minimum standards are met at outlets and ensure infrastructure will accommodate future growth. To that end, the Company initiated its "Brilliance in the Basics" campaign whereby standards for outlet presentation are set but much of the operations of the outlets are left up to the entrepreneurial outlet manager who will focus on increasing sales while keeping costs under control. The Company is also assessing its current processes and information systems to optimize the efficiency in handling and managing inventory from the sourcing through to the sale and emulating those processes in the information system.

With confidence in its infrastructure, the Company will aggressively seek opportunities for growth through opening new outlets and broadening its reach to acquire the greatest possible value proposition available to consumers in all the markets the Company services.

FORWARD-LOOKING STATEMENTS
The foregoing includes forward-looking statements and potential future circumstances and developments. Forward-looking statements regarding future performance are subject to risks and uncertainties and actual results may differ materially.

MANAGEMENT'S / AUDITORS' REPORT

Management's Report

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information presented in this report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee composed of non-executive directors. The Audit Committee reviewed the consolidated financial statements with management and external auditors and recommended their approval by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented alongside.

WAYNE MANTIKA,
President & Co-CEO

ANDREW SEARBY, C.A.
Executive Vice President, Chief Financial Officer

Auditors' Report

To the Shareholders of Liquidation World Inc.

We have audited the consolidated balance sheets of Liquidation World Inc. as at October 3, 2004 and October 5, 2003 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the two year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 3, 2004 and October 5, 2003 and the results of its operations and its cash flows for each of the years in the two year period ended October 3, 2004, in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
November 22, 2004

KPMG LLP

KPMG LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at October 3, 2004 and October 5, 2003 (in thousands of Canadian dollars)	04	03
ASSETS		
Current assets:		
Cash and equivalents	$ 876	$ 4,949
Accounts receivable *(note 1(a))*	1,221	244
Inventory	55,705	48,831
Income taxes receivable	–	1,571
Prepaid expenses	2,281	2,540
Assets of discontinued operations *(note 3)*	–	1,209
	60,083	58,889
Capital assets *(note 2)*	5,766	5,132
Investment in affiliate	–	692
Goodwill	–	278
Assets of discontinued operations *(note 3)*	–	84
	$ 65,849	$ 65,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,706	$ 9,297
Income taxes payable	863	–
Liabilities of discontinued operations *(note 3)*	45	88
	8,614	9,385
Future income taxes	258	–
Shareholders' equity:		
Share capital *(note 5)*	15,757	15,990
Retained earnings	41,220	39,700
	56,977	55,690
Commitments *(note 8)*		
	$ 65,849	$ 65,075

See accompanying notes to consolidated financial statements.

On behalf of the Board:

DARREN GILLESPIE
Director

HERB LUKOFSKY
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended October 3, 2004 and October 5, 2003 (in thousands of Canadian dollars, except per share amounts)	04	03
Revenue	$ 184,418	$ 170,535
Cost of sales	112,841	102,337
	71,577	68,198
Expenses:		
Selling and store operations	58,142	54,291
General and administrative	6,666	9,335
Depreciation and amortization	1,283	1,442
Foreign exchange	20	339
	66,111	65,407
Earnings before income taxes and discontinued operations	5,466	2,791
Income taxes:		
Current	2,265	1,304
Future	258	–
	2,523	1,304
Earnings before discontinued operations	2,943	1,487
Discontinued operations *(note 3)*	(650)	(718)
Net Earnings	2,293	769
Retained earnings, beginning of year	39,700	38,931
Excess of repurchase amount over stated capital of repurchased shares *(note 5(b))*	(773)	–
Retained earnings, end of year	$ 41,220	$ 39,700
Earnings per share from continuing operations:		
Basic	$ 0.35	$ 0.17
Diluted	$ 0.34	$ 0.17
Earnings per share:		
Basic	$ 0.27	$ 0.09
Diluted	$ 0.27	$ 0.09

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 3, 2004 and October 5, 2003 (in thousands of Canadian dollars)	04	03
Cash provided by (used in):		
Operations:		
Earnings from continuing operations	$ 2,943	$ 1,487
Add (deduct) non-cash items:		
Depreciation and amortization	1,283	1,442
Loss on disposal of capital assets	–	102
Equity in income of affiliate	(39)	(105)
Loss on sale of equity interest	6	–
Future income taxes	258	–
	4,451	2,926
Changes in non-cash operating working capital:		
Accounts receivable	(186)	772
Inventory	(6,874)	(4,154)
Prepaid expenses	259	(661)
Accounts payable and accrued liabilities	(1,591)	1,482
Income taxes	2,434	1,427
	(1,507)	1,792
Discontinued operations:		
Funds provided by (used in) discontinued operations	(184)	(718)
Changes in non-cash operating working capital balances of discontinued operations:		
Assets of discontinued operations	567	1,000
Liabilities of discontinued operations	(43)	88
	340	370
Investments:		
Purchase of capital assets	(1,952)	(1,319)
Proceeds on disposal of capital assets	35	340
Proceeds on disposal of discontinued operations	396	–
	(1,521)	(979)
Financing:		
Proceeds on issuance of common shares	58	19
Repurchase of common shares	(988)	–
	(930)	19
Increase (decrease) in cash	(3,618)	1,202
Cash and cash equivalents, beginning of period	4,494	3,292
Cash and cash equivalents, end of period	$ 876	$ 4,494
Supplemental disclosure of cash paid for:		
Income taxes	$ 324	$ (40)
Interest	–	–
	$ 324	$ (40)

See accompanying notes to consolidated financial statements.

FOR THE YEARS ENDED OCTOBER 3, 2004 AND OCTOBER 5, 2003
(AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

1. SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION
These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries. The Company's 50% interest in an affiliate company is accounted for using the equity method. During fiscal 2004, the investment in affiliate was sold for proceeds of $725 which is included in accounts receivable at October 3, 2004. A loss of $6 was recognized on the sale.

B) REVENUE RECOGNITION
Sales revenue is recognized when a customer purchases and takes delivery of the product. Fee revenue is recognized as the related services are rendered.

C) INVENTORY
Merchandise inventories are carried at the lower of cost and net realizable value less normal profit margins. The cost of inventories is determined principally on an average basis by the use of the retail inventory method.

D) CAPITAL ASSETS
Capital assets are recorded at cost. Depreciation is provided on furniture and equipment on a diminishing balance basis at annual rates of 20% to 30%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

E) PRE-OPENING COSTS
Pre-opening costs associated with the opening of new locations are expensed as incurred.

F) FOREIGN CURRENCY TRANSLATION
The accounts of the Company's US subsidiaries are translated into Canadian dollars using the temporal method whereby monetary assets and liabilities are translated at the year end exchange rates, non-monetary items at historical rates and revenues and expenses at the average rate for the year. Gains or losses arising from exchange translations are included in earnings.

G) FISCAL YEAR
The Company's fiscal year ends on the first Sunday of October. Accordingly, the 2004 year end was on October 3, 2004 and comprised 52 weeks of operations. The 2003 year end was on October 5, 2003, and comprised 52 weeks of operations.

H) USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts at the date of the financial statements. In determining the cost amount of inventories, management uses the retail inventory method, which is by its nature subjective, and therefore actual results could differ from those estimates.

I) CASH AND EQUIVALENTS
Cash and equivalents are represented by cash in bank and short term deposits with original maturities of three months or less.

J) STOCK-BASED COMPENSATION PLANS
The Company has a stock-based compensation plan, which is described in Note 5(c). The Company follows the intrinsic value method for stock options granted to employees and the fair value method for stock options granted to non-employees. Any consideration paid on exercise of stock options is credited to share capital.

K) INCOME TAXES
The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

L) PER SHARE DATA
Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

M) GOODWILL
Goodwill arising from business acquisitions is not amortized but tested for impairment annually. During fiscal 2004, the remaining balance of goodwill was included with the assets disposed in discontinued operations (note 3).

N) COMPARATIVE FIGURES
Certain comparative figures have been reclassified to conform with the current financial statement presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. CAPITAL ASSETS

October 3, 2004	Cost	Accumulated Depreciation and Amortization	Net Book Value
Furniture and equipment	$ 10,312	$ 6,758	$ 3,554
Leasehold improvements	4,699	2,487	2,212
	$ 15,011	$ 9,245	$ 5,766

October 5, 2003			
Furniture and equipment	$ 9,229	$ 5,955	$ 3,274
Leasehold improvements	4,108	2,250	1,858
	$ 13,337	$ 8,205	$ 5,132

3. DISCONTINUED OPERATIONS

During the year, the Company divested of a subsidiary company, Clear Thinking Group, Inc. ("CTG") for cash proceeds of $396. In addition, the Company received a non-interest bearing note in the amount of $65 due on February 27, 2005 as well as rights to receive 5% of gross revenues from CTG for a period of five years. The Company also received additional consideration in the form of 12,474 of its own shares held by the purchaser. These shares have been cancelled (note 5(b)). The closing of the transaction took place on August 27, 2004. These assets were disposed of as they were not a key factor to the Company's retail business strategy. The following table provides additional information regarding discontinued operations.

Year ended	October 3, 2004	October 5, 2003
Revenue	$ 2,479	$ 3,140
Loss before taxes	$ (184)	$ (718)
Loss on disposal	(466)	–
Income taxes (payable) recoverable	–	–
Discontinued operations	$ (650)	$ (718)

4. BANK INDEBTEDNESS

The Company has an operating line of credit facility at a Canadian bank in the maximum amount of $15,000 (reviewed annually), bearing interest at the bank's prime rate (4.0% at October 3, 2004). The facility is secured by an assignment of book debts, inventory, insurance, leases on retail premises and a general security agreement providing a charge over all assets.

5. SHARE CAPITAL

A) AUTHORIZED
Unlimited number of common shares.

B) ISSUED

	Number of shares		Amount
Balance, October 6, 2002	8,538,756	$	15,971
Issued on exercise of stock options	4,000		19
Balance, October 5, 2003	8,542,756		15,990
Issued on exercise of stock options	10,800		58
Shares repurchased	(142,500)		(268)
Shares cancelled *(note 3)*	(12,474)		(23)
Balance, October 3, 2004	8,398,852	$	15,757

In accordance with a normal course issuer bid, the Corporation repurchased and cancelled 142,500 common shares for total consideration of $988. The excess of this consideration over the average paid up amount of the related shares of $720 has been charged to retained earnings. Similarly, the excess of the fair value over the average paid up amount of the shares received on the sale of CTG of $53 has been charged to retained earnings on cancellation of the 12,474 shares.

C) STOCK OPTIONS

The Company has a stock option plan under which a total of 766,644 options to purchase common shares are reserved to be granted to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of five years and expire at various dates through September 2009. At October 3, 2004, the exercise price of outstanding stock options ranged from $4.20 to $9.55 per common share.

Changes in the number of options, with their weighted average exercise prices are summarized below:

	October 3, 2004			October 5, 2003		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Stock options outstanding, beginning of period	558,725	$	5.82	604,830	$	6.77
Granted	189,000		7.00	202,000		4.20
Exercised	(10,800)		5.39	(4,000)		4.70
Cancelled/expired	(172,525)		6.08	(244,105)		6.84
Outstanding, end of period	564,400	$	6.15	558,725	$	5.82

	Options outstanding				Options exercisable		
Range of exercise Price outstanding	Number outstanding at October 3, 2004	Weighted average remaining contractual life		Weighted average exercise price	Number exercisable at October 3, 2004		Weighted average exercise price
		(months)					
$ 4.20 – 6.00	224,500	36	$	4.37	70,640	$	4.49
6.01 – 8.00	254,400	44		6.81	51,216		6.25
8.01 – 9.55	85,500	27		8.85	35,400		8.88
	564,400	38	$	6.15	157,256	$	6.05

5. SHARE CAPITAL (CONTINUED)

C) STOCK OPTIONS (CONTINUED)

As the Company follows the intrinsic value method of accounting for stock options granted to employees, no compensation cost has been recognized for the year ended October 3, 2004. The Company has calculated compensation cost for stock options granted to employees under the fair value method using the Black-Scholes options pricing model, with the following weighted average assumptions: zero dividend yield; expected volatility of 46%; risk free rates of 5%; and expected lives of 5 years. The weighted average fair value of options granted during the year was $3.30 (2003 – $1.71). Had the Company recorded the resulting compensation expense, pro forma net earnings in the current year would have been reduced by $167 (2003 – $104) to $2,126 (2003 – $665) and the pro forma earnings per share would have been $0.25 (2003 – $0.08).

D) PER SHARE AMOUNTS

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended October 3, 2004 was 8,508,537 (2003 – 8,542,064).

In computing diluted earnings per share, 65,148 shares were added to the weighted average number of common shares outstanding during the year ended October 3, 2004 (2003 – 19,235) for the dilutive effect of employee stock options.

6. INCOME TAXES

The provision for income taxes differs from the amount obtained by applying the combined applicable income tax rate to earnings before income taxes. The difference relates to the following items:

Years ended	October 3, 2004	October 5, 2003
Statutory income tax rate	36.1%	37.5%
Calculated tax expense	$ 1,973	$ 1,047
Capital taxes	54	72
Changes in valuation allowance	426	161
Other items	70	24
	$ 2,523	$ 1,304

The tax effects of temporary differences that give rise to significant portions of the future tax asset (liability) at October 3, 2004 are presented below:

	Assets (Liability)		Total	
	Canada	United States	2004	2003
Non-capital loss carryforwards	$ –	$ 650	$ 650	$ 392
Capital assets	(258)	(21)	(279)	(167)
Inventory of US subsidiaries	–	191	191	169
	(258)	820	562	394
Valuation allowance	–	(820)	(820)	(394)
Net future tax asset (liability)	$ (258)	$ –	$ (258)	–

The non-capital loss carryforwards in the United States expire between 2022 and 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. RELATED PARTY TRANSACTIONS

The Company leases three buildings (22,000 square feet, 34,000 square feet and 20,000 square feet) for three of its retail locations from a company owned by a director of the Company and a partnership of which the same company is a partner. Base rents approximate $61 per year to 2005, $111 per year to 2008 and $73 per year to 2013, respectively.

During 2004, the board of directors authorized an independent director to negotiate the divestiture of CTG (note 3) and an investment in an affiliate company (note 1(a)). This director was paid fees of $32 for this service.

In 2003, assets with a carrying value of $442 were sold to a director for $340 resulting in a loss on disposal of $102.

Purchases from and fees paid to an affiliated company were $2,030 for the year ended October 3, 2004 (2003 – $1,773). These transactions are considered to be in the normal course of operations and have been measured at the exchange amount of consideration established and agreed to by the related parties.

8. COMMITMENTS

The Company leases properties and equipment under operating leases covering various years up to 2037. The minimum future payments, excluding tenant operating costs, under these leases in each of the next five years are approximately as follows:

2005	$ 9,308
2006	7,742
2007	6,765
2008	5,207
2009	3,668
Thereafter	9,909
	$ 42,599

In addition to minimum annual rentals, contingent rentals may be payable under certain store leases on the basis of sales in excess of stipulated amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENTED INFORMATION

GEOGRAPHICAL INFORMATION
Information regarding the Company's operations by geographical area is as follows:

2004	Canada	United States	Total
Revenue	$ 159,414	$ 25,004	$ 184,418
Capital assets	$ 5,264	$ 502	$ 5,766
Goodwill	$ –	$ –	$ –
2003			
Revenue	$ 143,186	$ 27,349	$ 170,535
Capital assets	$ 4,656	$ 476	$ 5,132
Goodwill	$ –	$ 278	$ 278

10. FINANCIAL INSTRUMENTS

A) FAIR VALUE
The carrying value of cash and cash equivalents, accounts receivable, income taxes receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

B) CREDIT RISK
The Company does not grant credit in the normal course of its retail operations and therefore assesses credit risk as minimal.

C) INTEREST RATE RISK
The Company has available an operating credit facility at a Canadian Bank in the maximum amount of $15,000. The exposure to interest rate risk is managed through the use of a floating interest rate.

D) FOREIGN CURRENCY RISK
The Company is exposed to foreign currency fluctuations in relation to its operations in the United States. Management believes this exposure is not material to its overall operations.

corporate information

Directors

DALE GILLESPIE, Founder and Chairman of the Board
Dale began his career in 1960 with Woodward's Stores Ltd. He later served in various sales, marketing and senior management positions for manufacturing firms in Ontario and Alberta. In 1986 he developed the idea for Liquidation World and promptly brought it to fruition. He acted as President and CEO of the Company until 2003, was awarded Ernst & Young's prestigious Entrepreneur of the Year award in1995, and the Pinnacle Award for Entrepreneurial Achievement in 2001.

ROB BAKSHI, President of Panarim Enterprises, Inc.
Before Panarim Enterprises Inc., Rob was the founder, Chair, President, and CEO of Silent Witness Ltd. until the company's acquisition by Honeywell International Inc. in late 2003.

DARREN GILLESPIE, Senior Executive VP & Co-CEO Liquidation World, Inc.
Darren joined Liquidation World in 1993 after 10 years with a national consumer electronics chain where he played an instrumental role in growing the business across Canada. Darren is responsible for marketing, communications, and investor relations.

LESLIE LANDES, President of Stockgroup Information Systems, Inc.
As well as being the President of Stockgroup Information Systems, Inc., a company providing financial content and software solutions to media, corporate and financial services firms, Leslie is also a director of TIR Systems Ltd. and the former president of Jimmy Pattison Industries Ltd.

HERB LUKOFSKY C.A., Corporate Director, Business Consultant
Herb was a partner with Arthur Andersen where he was in charge of the firm's tax practice. In 1984 he established Lukofsky, Lajoie and Associates, a business consulting firm specializing in mergers and acquisitions. Herb joined the Board of Directors for Liquidation World in January 2001.

CHARLES M. (CHAD) MURRAY, President, Chad Murray Sales and Marketing, Inc.
Chad is a long-time shareholder in Liquidation World, and has a solid understanding of retailing in Canada. He served in numerous capacities with Erie Industries Inc., eventually becoming President, CEO, and a member of the Board before founding his own company.

ROBERT THOMSON, Q.C., President of Rovalex Investments, Inc.
Robert, now President of Rovalex Investments Inc., practiced corporate law with the firm of Fraser Milner in mergers and acquisitions until his retirement in 1999.

Management

WAYNE MANTIKA, President & Co-CEO
DARREN GILLESPIE, Senior Executive VP & Co-CEO
JONATHAN HILL, Senior Executive VP & Co-CEO
ANDREW SEARBY, C.A., Executive VP & CFO
DERRICK GILLESPIE, VP Corporate Purchasing
DARRELL FLADAGER, VP US Operations
LARRY SCHEFFEE, VP Liquidation World Enterprises
TROY HEATH, Director – Eastern Region
ZORA ROBERTS, CMA, Controller
DAVID MOULTON, Director of Marketing
TERRY OFFORD, Director of Loss Prevention/Internal Audit
CHAD RICHARDSON, Director of Information Systems

Solicitors

Phillips Sevalrud LLP
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Auditors

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Chartered Accountants
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Bank

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Transfer agent

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Shares are listed on the Toronto Stock Exchange under the symbol **LQW**.

www liquidationworld.com

LIQUIDATION WORLD®
BRAND NEW • BRAND NAMES

RETAILERS > Convert inventory into cash. On-site store closures. Complete inventory lifts. Mitigate lease and staff expenses.

MANUFACTURERS > Cancelled orders, packaging changes, inventory overruns, discontinued products. Complete brand protection through managed distribution. Tightly controlled advertising in accordance with your instructions.

INSURANCE COMPANIES > Maximize recovery. Settle quickly. We have the financial and logistical ability to make it happen.

BANKS > Minimize exposure. Act fast. Maximize recovery. Quick and accurate reads on portfolio value.

outlet locations

CANADA

ALBERTA
Calgary (3)
Camrose
Cold Lake
Drumheller
Edmonton (4)
Fort Saskatchewan
Grande Prairie
High River
Hinton
Leduc
Lethbridge
Medicine Hat
Peace River
Ponoka
Red Deer
St. Paul
Taber
Wainwright
Westlock

BRITISH COLUMBIA
Aldergrove
Chilliwack
Coquitlam
Courtenay
Cranbrook
Duncan
Gibsons
Kamloops
Kelowna
Langley
Maple Ridge
Mission
North Vancouver
Penticton
Port Alberni
Prince George
Quesnel
Richmond
Surrey
Victoria

MANITOBA
Steinbach
Swan River
Thompson
Winnipeg (2)

ONTARIO
Ajax
Arthur
Belleville
Bleinheim
Bolton
Brantford
Burlington
Cambridge
Campbellford
Cobourg
Hamilton (2)
Hawkesbury
Ingersoll
Keswick
London (2)
Oakville
Orillia
Oshawa
Paris
Peterborough
Prescott
Sarnia
Smith Falls
St. Catherines
Sudbury
Trenton
Uxbridge
Wallaceburg
Waterloo
Welland
Windsor (2)
Woodstock

SASKATCHEWAN
Estevan
Lloydminster
Moose Jaw
Prince Albert
Regina
Saskatoon
Yorkton

USA

ALASKA
Anchorage

IDAHO
Boise
Coeur d'Alene
Lewiston

MONTANA
Great Falls

WASHINGTON
Everett
Kent
Lacey
Renton
Richland
Spokane (2)
Tukwilla
Yakima

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